

THE ELECTION MANIA BUDGET

Caratti Accountants & Business Advisors



The 2025 Federal Budget has been released, and as expected, it was a light, but very political document this year given the impending election. As one leading tax commentator noted, this year's budget is "politically savvy and economically questionable". The primary focus of this budget is to provide support with cost-of-living pressures (at the cost of a \$27B deficit), although it is arguable how much of this it actually does. Of particular interest this year is which of budget announcements the Government has managed to push through parliament (usually the ones to win votes) and the increasing volume of prior budget announcements that are still waiting to be made law. As usual with the budget, the tax devil is in the tax detail though (and the election outcome)

PAY RISES TO ALL!

As I'm sure you are aware, there are pay rises in the form of tax cuts coming of \$268 a year from both 1 July 2026 and 1 July 2027. These are now law.

The tax rates over these years will be:

Thresholds	2025 and 2026 income years	2027 income year	2028 income year
\$0 – \$18,200	Tax-free	Tax-free	Tax-free
\$18,201 – \$45,000	16%	15%	14%
\$45,001 – \$135,000	30%	30%	30%
\$135,001 – \$190,000	37%	37%	37%
\$190,001+	45%	45%	45%

Before we all get too excited about the extra \$5/week that we will be getting, let's just consider these in the context of "**bracket creep**" which occurs when inflation pushes a person into a higher tax bracket, even though their real purchasing power has not changed.

For example, if you earn \$40,000 in 2025, and with 4% inflation, your salary rises to \$41,600 in 2026:

- Tax (excluding Medicare) in 2026: \$3,488
- Tax in 2027 (excluding Medicare): \$3,744
- This is an increase of \$256 in tax. The tax cut of \$268 barely offsets this increase, showing how inflation erodes its benefit.

SUPERANNUATION MEASURES

There were no new super changes in this budget BUT there are some changes already announced that are still coming. These include:

- Super Guarantee goes from 11.5% to 12% for all employees from 1 July 2025. This is expected to be the final increase.
- In last year's budget, Pay Day super was introduced where employers will need to pay the employees superannuation at the same time as they pay their salaries. This is great for employees but for employers and superfunds, this poses numerous administrative challenges which need to be worked through. Superfunds need major system overhauls to comply with this, but legislation for this has yet to pass.

Considering that this is due to start on 1 July 2026, delays to this implementation seem likely.

RESTRAINT CLAUSES

Restraint (also known as non-compete) clauses are part of an employment contract that prevents an employee from either

- Working for a competitor or starting a competing business or
- Poach staff

They are common clauses in employment contracts that help to protect the business, especially in high income earners. The Government is arguing that this is unfair on employees who are prevented from getting better paying jobs. As a result, these will be banned from 1 July 2026 for employees that are earning less than \$175,000 pa.

In reality, these clauses are often legally ineffective (they need careful drafting) and usually only enforced by an employer when the former employer has suffered a loss from that employee. Either way, this change will likely spark debate between unions and employer groups.

SMALL BUSINESS

There is little new in the budget for small business, aside from the delayed instant asset write off measure. Acquisition of assets by small business were supposed to be immediately deductible (instead of depreciated) up to \$20,000 for the 2024/2025 year. This effectively brings forward the depreciation deductions from several years via for business and was announced in the last budget.

However, as of the second last day of parliament sitting for this financial year, that was not yet passed creating incredible uncertainty for small business. However, the various accounting bodies have lobbied extensively through the media as part of the budget response and this pressure meant that it was finally passed on the very last day of Parliament!

HOUSING MEASURES

If you don't have an Australian PR status, it will become even harder (it was always very difficult) to buy an Australian property. The Government is aiming to restrict our limited housing stock to Australian PR's and citizens unless very strict conditions apply. This will be done by banning foreign persons from buying established dwellings two years from 1 April 2025.

This measure sounds better than it actually is though as in reality, specific FIRB approval (a specific government agency) was always required for foreigners to buy Australian dwellings.



NO DEDUCTION FOR INTEREST TO THE ATO

If the past, if you don't pay your tax on time and the ATO charges you interest (which is usually at a higher rate than banks), then you were at least allowed to claim this interest as a tax deduction. However, from 1 July 2025, in a very sneaky move, any payments of ATO interest will NO LONGER BE DEDUCTIBLE.

The reverse has not happened with interest that they pay you as this is still taxable. Very sneaky!



MORE \$\$ TO THE PUBLIC SERVANTS

It wouldn't be a federal budget without an increase in the funding to the ATO. These include:

- A staggering \$999M to increase tax audit activity on personal tax, the shadow economy and other audit programs.
- An additional \$6.7m in 2026 to extend the National Anti-Scam Centre within the ACCC.
- An additional \$12m over four years to strengthen the ACCC's Small Business and Franchise support

Many of you will remember the directors' ID regime that was introduced a few years ago requiring every director to obtain a directors ID number. Think of this like a tax file number for every director in Australia. At the time, obtaining the number was supposed to only be stage one and ASIC's registers were then going to "link" every single director ID to every single company. The implementation of this has been ineffective at best and has been stalled due to lack of funding. It appears they are still keen on this process allocating a further \$207m in funding to help kickstart Stage two.



PRIOR BUDGET ITEMS STILL MISSING IN ACTION

Of particular concern is the number of previously announced budget announcements that are STILL not law. This list extends into many pages and many budget years but some of the key measures that have stalled include

- Instant asset write off which was to increase to \$20000 from \$1000 for 1/7/24 to 30/6/25 was only just passed in the last sitting day of the financial year after a lot of lobbying from the tax profession.
- Changes to increase the foreign resident CGT regime.
- Pay day super due to commence 1 July 2026

LESSON ON POLITICIANS WORK ETHIC

There has been a lot of rhetoric on the payments to consultants in this budget. It is interesting to note that in fact, the size of the public service is now 5% larger than it was in 2000. When you consider the growing list of announcements that have not yet made their way to parliament, one questions the effectiveness of this. Yet, it is interesting to note that the legislation on the tax cuts managed to get through the next day! I wonder is there is an election coming?

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